

# **FY 2008 FINANCIAL TREND ANALYSIS**

**Gallatin County, Montana**

**February 20, 2008**

---

## **I. OVERVIEW:**

Transmittal Letter	2
Gallatin County Mission Statement	4
Issues and Objectives	5
Process and Schedule	6
Overview of Current Financial Condition	8
Reserve Funding – Operating Reserves & Capital Reserves	12
County Debt – Debt Policy	17

## **Transmittal Letter:**

### **The 2008 PLAN represents the County's 8th Financial Plan**

I am pleased to present the 2008 Financial Plan to the County Administrator, County Commission and residents of Gallatin County for review and consideration.

The financial plan is a review of past actions, evaluation of our present financial condition, analysis and projection of future opportunities and challenges that affect the finances of Gallatin County. The plan includes a Financial Summary, describing the County's historic and current financial condition. The remaining sections show estimates on the County's financial trend and county financial forecasts. The Financial Plan is a dynamic document in the sense that it is reviewed annually and modified based on applicable conditions.

### **The 2008 Plan continues the projection process begun in FY 2001**

The 2008 Financial Plan reports and projects trends for Gallatin County. The report addresses several issues that may have a substantial impact on the County's financial resources in the near term.

- Criminal Justice System improvements recommended by the Detention Consultant were funded as part of the FY 2005 through the FY 2008 Budgets.
- The County received the County Office and Criminal Justice System Office Space needs assessment from Carter, Goble and Lee projecting space needs in five-year increments. The 20-year estimates show office needs costing \$13,520,000 and Criminal Justice Office space needs costing \$43,391,788. No land costs are anticipated. In addition, the County will have to fund construction of a \$33 million Detention Center. Total identifiable costs are \$86 million dollars.
- The Transportation plans for the County, Belgrade and Bozeman have been developed. The highest priority is given to the Airport I-90 Interchange, estimated cost is \$56 million with local sources obligated for over \$20 million.
- Implementation of County Growth Policy will be ongoing, with costs being identified this Fiscal Year and into the future.

My findings show the County to be in a **WATCH** financial position. This is down from last year's 'Favorable' position. Positive areas include:

- continued modest growth in taxable values;
- increase in population;
- growth in business and personal income greater than the national and state average;
- completion of office space needs and criminal justice needs; and

Areas to 'WATCH' include:

- decrease in strong construction activity;
- University of Montana - Economic Outlook projections have decreased growth projections from previous years for Gallatin County; and
- License and Permits.

Negatives that detract from the positive local outlook include:

- significant shortfall in funds for capital projects – including Office Space, Criminal Justice, Detention Center and Transportation needs;
- Sworn Officers above the 2,200 residents per officer threshold; and,
- employee moral as identified in recent survey.

Several issues currently being reviewed at the County level include:

- Detention Center, recommendation for a MINIMUM of 160 beds;
- Courthouse Annex renovation;
- Update of transportation plan and transportation system;
- Relocation of Road / Bridge facilities to new site;
- Construction of new dispatch center;
- I-90 Interchange; and
- County Growth Policy Implementation.

Costs associated with these items will be researched, identified and funded through normal budget processes. Costs may require either new revenues including users fees or a general tax levy increase or the Commission may use current revenues by reducing, eliminating or restricting growth of current services / programs.

**This year's financial  
plan depicts a County  
in need of new revenue**

The financial plan shows the County is in need of new revenue. The last 20 years have seen the County focused on maintaining services with frozen Mill Levies, in response to tax levy limitations. The financial plan continues to point to the necessity of planning now for the future. The County must address critical funding needs, such as long-term planning, management and protection of Open Spaces, retention, professional and organizational development, expansion of Detention activities, and the expansion of County and Criminal Justice Office space in a logical and manageable manner.

The 2008 Financial Plan continues tracking a variety of issues requiring the attention of the County Commission and the public. The status of the County's current and projected financial condition is explored and statements and recommendations are put forth to maintain and solidify the County's financial standing.

I would like to thank Wendy Wiedenmeyer, CA Executive Assistant, for her help in editing and reviewing this report. Also, the review by Dan Eschenbaum, Tanya Arrington and Cynde Hertzog was invaluable. Without the capable, competent and timely support of Linda Leening, Budget Coordinator for the Finance Office, this document would not have been generated. Her continued involvement, questioning of statements and research are a great benefit to the department .

I also want to thank Earl Mathers, County Administrator for his support and the County Commission for their understanding of this time consuming project. I look forward to working with all of you and the residents of Gallatin County to review, amend, implement and modify this document.

*Edward G. Blackman*

County Finance Director

# **MISSION STATEMENT**

Provide cost effective services, visionary leadership and responsive policies for our diverse residents.

## **VISION:**

Gallatin County is dedicated to being a premier county local government.

### **Long-Term Goals (Concerns and Issues)**

- Equate community needs with budgetary decisions
- Adhere to long-term plans
- Demonstrate exceptional Customer Service
- Serve as a Model for Excellence in Government
- Improve Communication within county government, other jurisdictions and our public
- To be an Employer of Choice and Improve Employee Retention

### **Short-Term Goals (Priorities and Policy Issues for the Budget Year)**

- Maintain public health, safety and welfare as a high priority, as required and allowed under state statute and documented public demand, consistent with performance measurements.
- Improve and enhance the efficiency, effectiveness and productivity of every County Function through budget administration and performance management.
- Continue to improve Criminal Justice System including pursuit of a new Detention Center;
- Improve and maintain County Infrastructure by dedicating new property tax revenues resulting from new construction to Capital Projects;
- Ensure that needed transportation infrastructure systems are maintained and enhanced;
- Keep budget structurally balanced by maintaining current operation reserve percentages;
- Demonstrate a strong Commitment to Employee Retention through funding of needed wage and / or benefits;
- Improve management, accountability and oversight to reduce county risk; and,
- Exhibit commitment to Implementing Growth Policy.

## Issues and Objectives

### Financial Trend Analysis

#### *Objective:*

*Utilizing the County's Trend Monitoring System, compiled from local and regional data, update prior year's Financial Report, including specific recommendations to address those trends considered unfavorable or where a warning has been observed. Ratings assigned to each trend include Favorable (F), Watch or Warning (W), or Unfavorable (U).*

### Reserve Analysis

#### *Objective:*

*Analyze and recommend appropriate levels of reserves to (a) minimize and eliminate registration of warrants from all tax supported funds, (b) ensure that adequate reserves are identified for the needs of each fund or program and (c) meet program needs without unnecessarily obligating scarce dollars.*

### Budget Summary

#### *Objective:*

*Adhere to budget policy, process and procedures in compliance with state statutes 7-6-40 MCA. Review prior budget to actual expenses and revenues to provide historic perspective. Review yearly budgets and recap activities, changes to budgets and decisions affecting future costs and services.*

### Debt Policy

#### *Objective:*

*Implement the comprehensive debt policy developed in FY 2001 establishing parameters for issuing and managing debt by the county and component units.*

### Financial Forecast

#### *Objective:*

*Prepare a comprehensive five-year financial forecast for the General Governmental and Business Type Activities incorporating adopted County Finance policies, expenditure patterns, revenue trends and other known financial impacts.*

## Process and Schedule

### Goals

The Financial Trend Analysis and Financial Forecast Plan began through the Commission's decision to utilize strategic planning. The Commission's decision requiring Performance Measurement Budgeting for FY 09 has begun. The Finance Office incorporated workload indicators and performance measurements, identified by departments, into the FY 06 Budget document. These were enhanced for FY 07 and FY 08, with the goal of full implementation for FY 09 or FY 10. The County Administrator has committed to the final process including expanded public participation with outcome / workload indicators and the opportunity for the Commission to make decisions based on public input and performance indicators.

During FY 04, the County Commission for the first time established Goals for the Budget. Departments are required to identify goals which they are meeting when requesting changes to baseline budgets. The Commission continued this process for FY 08 with the adoption of the following Budget Goals:

- Maintain public health, safety and welfare as a high priority, as required and allowed under state statute and documented public demand, consistent with performance measurements.
- Improve and enhance the efficiency, effectiveness and productivity of every County Function through budget administration and performance management.
- Continue to improve Criminal Justice System including pursuit of a new Detention Center;
- Improve and maintain County Infrastructure by dedicating new property tax revenues resulting from new construction to Capital Projects;
- Ensure that needed transportation infrastructure systems are maintained and enhanced;
- Keep budget structurally balanced by maintaining current operation reserve percentages;
- Demonstrate a strong Commitment to Employee Retention through funding of needed wage and / or benefits;
- Improve management, accountability and oversight to reduce county risk; and,
- Exhibit commitment to Implementing Growth Policy.

Elected Officials and Department Heads are to use the Commission goals in preparing their budgets which was partially utilized during the FY 08 Budget cycle.

The original Strategic Planning Committee identified and recommended goals for Gallatin County. The Goals adopted in FY 02 by the County Commission were modified during FY 04, again in FY 06 and updated for FY 08 to the current language of:

- Equate community needs with budgetary decisions
- Adhere to long-term plans
- Demonstrate exceptional Customer Service
- Serve as a Model for Excellence in Government
- Improve Communication within county government, other jurisdictions and our public
- To be an Employer of Choice and Improve Employee Retention
- Implementation of the goals is ongoing, with available funding being a major constraint to full implementation.

## Process and Schedule (continued)

The Finance Office is responsible for the accurate preparation and distribution of the Annual Budget, the Management Discussion and Analysis component of the Annual Report, the mid-year Financial Trend Analysis/Financial Forecast report and quarterly report. The Finance Office submitted the County's Annual Budget to the Government Finance Officers Association for consideration under the Association's Distinguished Budget Preparation Award Program. The County was successful in receiving a "Certificate of Recognition for Budget Preparation" for FY 06 and FY 07. The FY 08 Budget is currently being reviewed.

The Finance Office's goal in preparing the Financial Trend Analysis /Financial Forecast report is:

**To provide a clear and concise Analysis and Forecast that identifies the County's current and projected financial condition and addresses alternatives to the County's problems. Hereafter referred to as the 'Plan.'**

### **Trends and Forecasts are the foundation of the LTSFP**

The Plan is developed using Trend Analysis and Financial Forecasts based on nine years of historical information. Recommendations made by staff and the public were incorporated into the Financial Plan, which is the County's Long-Term Strategic Financial plan. (LTSFP)

This Plan was presented to the Public on February 20, 2008. The following schedule was approved by the County Commission in an effort to keep the public informed about the Plan and to encourage public participation in developing an action plan that the County can use for the FY 2009 budget process:

February 08, 2008	Plan submitted to County Administrator, Commission and Finance Committee
February 15, 2008	Comments due back to Finance Office
February 20, 2008	Presentation of Plan at Public Hearing
February 27, 2008	Approval of Financial Plan by Commission
March 12, 2008	Finance presents Suggested Operating Reserves to County Commission and Departments
March 19, 2008	FY 09 Timetable, Estimated Revenues, Cash and Status quo Expenses distributed
March 24, 2008	Commission Amends, Tables or Adopts Operating Reserves for FY 09 Budgets
April 30, 2008	Budget Packets distributed - Budget Process begins

## **Financial Condition Overview**

### **Profile of Current County Financial Condition**

This section provides a profile of Gallatin County's current financial condition. Also included are recommendations on Financial Programs.

Included in this part are:

- Introduction
- Overview of Plan
- Current Financial Status of Gallatin County
- Reserve Funding
  - Operating Reserves
  - Capital Reserves
- Finance Director's Recommendations on Financial Programs.

### **Summary:**

The 8<sup>th</sup> edition of the County's Financial Plan documents the County's current financial position, a brief historical overview and a proposed path for a successful financial future.

The Plan starts with a review of the County's current financial condition, using 6-months actual revenues and expenses for FY 08, and projects these revenue and expenditure trends for a full year. The Plan uses these projections in identification of potential challenges and issues. Based on FY 2008 projections, along with the last 5 years' actual revenues and expenses, projections are created estimating the next five years' cash balances, non-tax, tax revenues and expenses.

The financial plan will be used to:

- Standardize and document assumptions used in future years budgets;
- Document projections using historical trends; and,
- Allow for better decision-making processes by the County Commission.

### **Early Detection implemented as part of Plan**

The 2008 and future Financial Plans are tools in the early detection of financial problems and opportunities. This early identification allows the County to react faster to problems and be proactive versus reactive as problems develop and are identified. Furthermore, financial planning allows the County to logically plan for the future.

FY 2009 to 2013 projections show a number of issues, including funding shortfalls that may occur and will require a substantial dedication of money in both the short and long-term. These issues include funding of Public Safety needs, Court system improvements, replacement of bridges, Road Maintenance and Upgrade/Replacement, Information Technology replacement and improvements, Detention facility, Mental Health facility and expansion of current staff to meet increasing workload and population increases.

Several key issues identified as needing consideration over the next 5 years include the continued funding of the expanded Criminal Justice System, funding of the County Growth Policy, implementation of the Transportation Plan- including county match for Airport Interchange, development of Facility Master Plan, Detention Center replacement, and funding of office space needs as recommended by consultant.

From a financial perspective, Gallatin County is in the position of having money to address a few of our infrastructure needs. These include the Courthouse Annex purchase and remodel, Law and Justice carpet, HVAC and boiler improvements, construction of Road Shop and Dispatch Center and improvements at the County Fairgrounds and Open Space preservation. The Plan shows a number of issues requiring voter / Commission action now or in the near future, to meet needs and requirements.



However, the County has limited revenue growth potential to maintain current service levels, let alone pay for identified needs or expansion of programs to meet requests or demands by a more demanding public. I recommend the Commission take a **VERY** cautious approach before adding staff, expanding services and especially adding programs. Prior to the beginning of the Budget Process, I recommend the Commission review all departments and identify those for potential expansion, reduction or elimination. This will require prioritizing all programs.

**Overall, I think the County's financial condition is "WATCH"**

The County's outlook is **'WATCH'** because of the positive and negatives aspects previously stated. The General Fund, Road, Bridge and Public Safety fund balances will decrease with utilization of cash for capital outlay/projects and special activities. With revenue growth (mainly taxes and fees associated with growth) decreasing, as shown by the following table, the County's ability to continue current levels of service is in doubt. Unless additional reliable revenue streams are found the Commission will have difficulty in funding the FY 09 and especially the FY 10 budget. The best source of reliable revenue would be through an increase in taxes, either from the \$870,000 currently not being levied or from new voter approved taxes. However, public perception about taxes being high limits the viability of this source.

The changes in non-tax revenues associated with growth in the County is shown below by comparing the first 6 months Clerk & Recorder Fees, Zoning Fees and Local Option Fees:

	<u>Clerk</u>	<u>Zoning</u>	<u>5% Option MV</u>
FY 08	\$412,249	123,855	1,592,204
FY 07	483,110	133,524	1,545,304
FY 06	584,492	193,399	1,417,305
FY 05	424,467	174,589	1,318,823
FY 04	498,544	126,457	1,171,279
FY 03	442,404	88,924	1,053,719

The Clerk & Recorder Fees are DOWN 14.662% from last year, 6.8% down from 6 years ago and down 29.43% from the FY 06 high. Zoning Fees are down 7.24% from last year and down 35.94% from the high in FY 06. Motor Vehicle Local Option continues to increase. However, the 3.04% this year is down from FY 07's 9.03%. The last 5 years average increase was 7.19% per year – over twice FY 08's.

Overall, I continue to be concerned about the County's ability to maintain current staffing and operations, with limitations of State law, along with the Commissions unwillingness to maximize taxes and the County's inability to receive significant revenues without a vote of the people or the legislature.

*As an example* -- the ratio of population to County Employees and Sworn Sheriff personnel from tax supported funds shows the following.

Year	County Population	Residents per Sheriff Officer		Residents Per Employee
		ALL	AVAILABLE	
1995	59,273	1,992.10	2,135.65	179.82
2000	67,831	2,055.48	2,339.00	180.36
2003	72,604	2,034.53	2,525.62	193.79
2004	73,110	1,890.93	2,363.66	192.45
2005	74,640	1,818.84	2,370.00	186.70
2006	75,637	1,759.15	2,380.03	181.13
2007	78,210	1,672.64	2,200.84	196.52
2008	80,921	1,726.86	2,172.15	197.40

The First Column under 'Residents Per Sheriff Officer' - ALL-shows that a sworn officer was responsible for 1,992.10 residents in 1995, with a decrease down to 1,726.86 per officer in 2008. This is misleading because of contractual obligations, the Sheriff must assign 5 officers to Big Sky and 4 to the Airport, 3 officers are assigned to meet grant requirements, with one officer assigned to administer the Detention Center. The second column reflects officers available and is a more accurate table of services received by residents. It shows an increase from 2,135.65, in FY 95 to 2,172.15 residents per officer in FY 2008.

**In my opinion the County cannot maintain current service levels...**

**The impact of growth on staff is showing**

In my opinion, the County will not be able to maintain current levels of public services for Public Safety, Health and Public Works activities to our residents that they have come to expect, without increases in revenues. The county has four immediate financial challenges:

1. Criminal Justice System – Adult Detention Center  
RECOMMENDATION - construction of facility based on approved programming, with revenue generated by the facility used first to fund estimated cost of next expansion then for maintenance;
2. Maintenance and enhancement of infrastructure – Road, Bridge, Landfill, Water / Sewer, County Buildings, Space needs assessment and I-90 Interchange;
3. Expenditures for current service levels will exceed projected revenues, without significant cost savings (reduction in services) or new revenues including taxes;
4. Implementation of County Growth Policy; and,
5. Funding of Commercial Impact fees.

Overall, the success of County Programs comes directly from the exceptional quality and dedication of County Employees. The dramatic impact on employees from increased demands, increased technical levels with a decrease in workspace continues to create tension and dissatisfaction with their work/goals and environment. This is evident from increased utilization of health insurance (38% increase), increased errors, high turnover rates (see page 25), increased irritability and significant negative morale among employees, as shown by employee survey. It also is adversely affecting the County's ability to attract new quality employees.

### **The 2008 Financial Plan**

The Finance issues examined this year include:

- Financial Condition Report – A profile of current county financial activities and the County financial condition.
- Reserves – Individual operating reserves have improved from five and ten years ago. The County Commission's decision to maintain Operating Reserve Percentages as a part of the Budgetary Goals enhances the ability to maintain reserves.
- Review of Prior Budgets – A summary of the last five-year budgets with emphasis on the unique changes made each year. Graphs are used to show trends in employees, reserves and capital expenses.
- Financial Trend Analysis – Review of Financial trends show a **FAVORABLE** status as of January 1, 2008.
- Financial Forecast – The County's five-year financial forecast, based on current operating trends, is in a **FAVORABLE** status, with the County's fund balances projected to DECREASE significantly (pg 59).
- Debt Policy – Adherence to the County Debt Policy is at the core of a well-managed debt program and capital improvement plan. The Debt policy establishes parameters for issuing and managing debt and enhances the County's conservative Finance Policy.
- Information Systems Plan – The Information Systems Plan identifies Long Term Technology Hardware and Software Strategic Policy / Plan.
- Growth Policy – Approved in FY 07, implementation phase begun.

Future Financial Plans may include:

- Road and Bridge Maintenance and Improvement Program – The County Road office on a yearly basis identifies specific projects to be accomplished during the year.
- Public Safety Strategic Plan –Public Safety Departments are developing a Strategic Plan to meet their needs now and into the future.
- Cost Recovery Fees for Services and or Impact Fee Calculations – The County needs to change State law to allow for full and true cost recovery from fees. Development of Impact Fees is ready for approval.

### **Current Financial Condition**

**The General Fund  
12/31/07 cash  
is \$3,741,563,  
up from \$3.5M in 01**

The County's financial condition as of December 31, 2007 shows that the County is maintaining a positive financial position. However, cash required for the Courthouse Annex and Law and Justice Center, along with construction of the Road Shop and Dispatch Center will decrease cash in the General, Public Safety, Health and Capital Projects Funds.

Current projections show tax-supported operating funds will have a cash balance of \$11.8 million at the end of FY 08 compared to \$16.46 million for FY 07, \$15.26 million for FY 06, \$15.0 million in FY 05, \$10.2 million for FY 04 and \$12.1 million at the end of FY 03. Of the **\$12.6 million**, \$5.79 million is set-aside for Operating Reserves.

The following table shows the sources of estimated cash balances:

<u>Item</u>	<u>Amount</u>	
Operating Reserve (per Budget)	5.79 Million	
Capital Reserves (per Budget)	3.41 Million	
Increase in Revenues above Budget	1.20 Million	
Decrease in Expenses below Budgets	<u>1.40 Million</u>	
TOTAL ESTIMATE		\$11.8 Million

The County General Fund will end the year **down** an estimated \$937,090 from the beginning of the year. But will still have a positive fund balance of over \$2.6 million, including a \$1,100,000 Operating Reserve.

Estimated year in cash is more than Operating Reserves because the County uses conservative revenue estimates during the budget and departments spend less than budgeted. This allows the County to assure adequate funding for current service levels into the future.

**Growth continues  
to be the  
predominant issue**

Growth continues to be the County's predominant issue. Not only does this include retail and residential growth, but also the substantial impact on the County's transportation system, facilities and staffing. The recent slow down in development will allow the County to deal with unresolved issues and problems from 15 years of significant growth in population, demand for services and in development throughout the county.

Paul Polzin, Director of the Bureau of Business and Economic Research (BBER) at the University of Montana says "Bozeman has developed into a trade and service center. Growth in state government (mostly research at MSU), the federal government and nonresident travel have also been major contributors to the trends since 2001. The Bozeman area is home to much of the state's high-tech industry, and this sector grew rapidly prior to the 2001 recession. Following national trends, this industry suffered significantly during the recession but has now regained its 2001 level. Construction and real estate are the wild cards impacting the short-term

outlook for Gallatin County..... There may be a distinct deceleration if these industries start reflecting the cooling reported in the national economy.”  
The 2008 Plan confirms the criteria used for setting Operating Reserves for County General, tax supported special revenue funds (Road, Bridge) and County Enterprise funds. The Financial Plan forecasts the Rest Home, Health Insurance, Telephone, Facility and Liability Insurance funds because these funds are an integral part of the County financial plan.

### **Reserve Funding:**

Capital Reserves and Operating Reserve Policies are an important part of the County’s Financial Policy. The following gives details about these policies.

### **Objective – Operating Reserves:**

*The County Finance Office will analyze and recommend appropriate levels of reserves to (a) minimize and eliminate registration of warrants from all possible funds, (b) ensure that adequate reserves are identified for the needs of each fund / program and (c) meet program needs without unnecessarily obligating scarce dollars.*

### **The FY 2008 Budget fully funded Operating Reserves**

Gallatin County has adopted a formal policy on Operating Reserves and Capital Reserves. The County has included Operating Reserves recommended by the Finance Office in the Budget.

State Law authorizes counties to maintain reserves for operations (Operating Reserves) of up to 33% of a fund’s total budget. (7-6-4034(2)(a) MCA) Historically the Finance Office recommends that the Commission maintain reserves in the range of 10% to 30% for Operating Budgets per fund, with actual reserves depending on availability of cash and historic need for reserves.

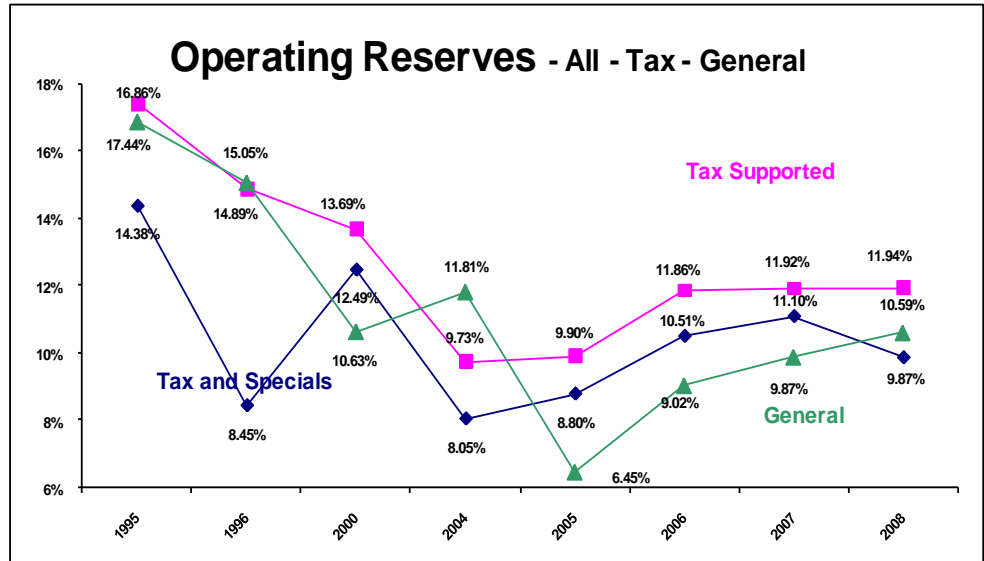
The County has increased cash reserves from 1995 through the 2008 Budget for the General and Milled/Special Funds. The following table shows the amount reserved by year for the General, County Milled and Milled Special Funds:

<u>YEAR</u>	<u>RESERVES</u>		
	<u>GENERAL</u>	<u>MILLED</u>	<u>ALL OTHER</u>
<b>1995</b>	900,000	2,641,144	2,754,397
<b>1999</b>	1,100,000	3,264,556	3,969,792
<b>2000</b>	685,137	3,364,815	4,354,585
<b>2002</b>	750,000	2,734,545	4,538,473
<b>2003</b>	800,000	2,793,201	4,640,280
<b>2004</b>	800,000	2,746,764	1,424,659
<b>2005</b>	690,000	3,601,752	2,123,407
<b>2006</b>	750,000	4,301,003	2,805,100
<b>2007</b>	1,000,000	5,378,179	4,308,646
<b>2008</b>	1,100,000	5,791,563	2,749,786

**NOTE:** General Fund decreased in FY 2000 by separating Public Safety Fund departments from the General Fund. General Fund increase in FY 07 caused from closure of District Court Fund.

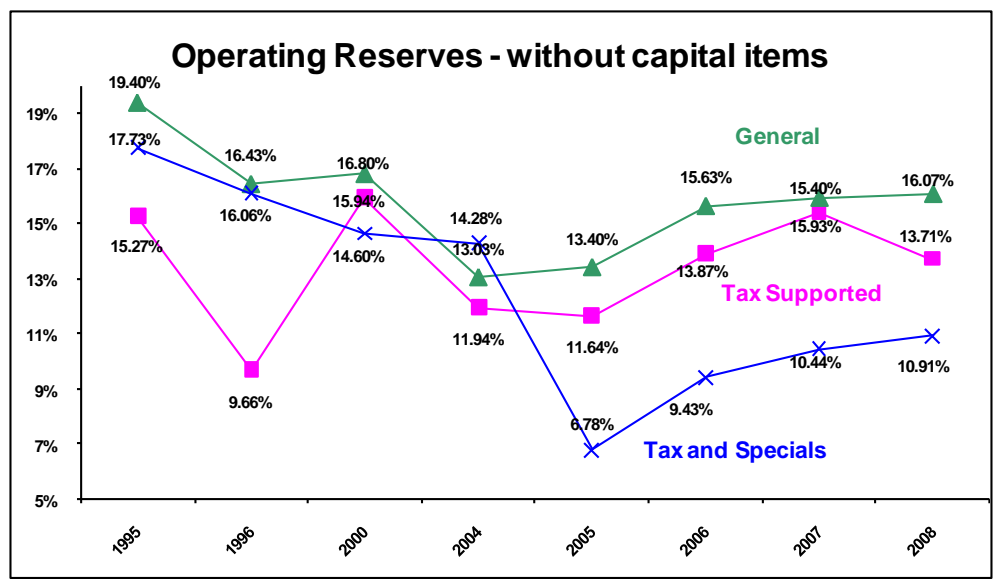
Because approved budgets have grown faster than Operating Reserves, the increase in cash set aside for Operating Reserves has not kept up with the percentage of the Budget. See the two graphs on the next page. The Commissioners approval of maintaining operating reserve percentages as a component of their Budgetary Goals eliminates this problem for FY 07 and FY 08.

The two graphs that follow show a downward trend in Operating Reserve percentages to tax supported over the first six to nine years and a stable rate for the last 3. The first graph shows that since 1995 Tax Supported Operating Reserves have decreased from 15.05% to 11.94%. General Fund Operating Reserves have decreased from 14.89% to 9.87%. Tax supported Special Revenue Fund Operating Reserves have increased from 8.45% to 9.87%.



The next graph, which in my opinion is a more accurate depiction of changes in Operating Reserves, shows Operating Reserves as a total of the same budgets without Capital Outlay, Capital Reserves and Capital Projects. Although the decline is still evident, the decrease is less, with the General Fund and Tax Supported funds being closer to 1995. Tax and Specials are actually slowly increasing as Reserve Policies are implemented in more funds.

## Operating Budgets (Excluding Capital Items) to Operating Reserves



## **Operating Reserves – Approved**

### **Operating Reserves are adjusted on a yearly basis**

The proceeding graphs show the error of not having a policy that Financial Professionals can use in recommending Operating Reserves for each fund. The County Commission adopted a Policy that complies with our stated Objective of (a) minimizing and eliminating registration of warrants (not running out of cash and having to borrow money), (b) ensuring that adequate reserves are identified for each fund, or program; and (c) meets the needs of the department, activity and program without unnecessarily obligating scarce dollars.

The following comparison shows the percentage of funds that are ‘Below Minimum’ or ‘At or above the Minimum’ operating reserve percentage:

	<b><u>FY 00</u></b>	<b><u>FY 04</u></b>	<b><u>FY 05</u></b>	<b><u>FY 06</u></b>	<b><u>FY 07</u></b>	<b><u>FY 08</u></b>
Below Minimum	4	12	10	9	10	10
At or above Minimum	20	17	16	16	15	15
% At or above Minimum	83%	59%	62%	64%	60%	60%

**NOTE:** The Fair Fund, Search & Rescue and Joint Dispatch are below minimum based on requests. The General Fund has absorbed the Public Assistance Fund and District Court Fund. For FY 08, Dispatch Fund was closed to the Public Safety Fund.

## **OPERATING RESERVES:**

### **Reserve Guidelines:**

There are a number of potential events which the County considers in the development of reserves:

- Economic Uncertainty – performance of the regional economy and the impact of that performance on demand for county services and market value;
- Weather – the amount of rainfall, snow and heat effects the county from snowplowing, flood, availability of water, vehicle accidents (both county owned and law enforcements response to incidents);
- Government Mandates – the impact of federal, state and local regulations has a direct and indirect effect on the County;
- Tax Changes – Limitations on the County’s taxing and spending powers through the passage or non-passage of voter referendums and legislative actions further affects the county’s ability to meet demand for services;
- Operating Costs – Increases in operating and maintenance costs because of inflation, labor agreements or budgetary increases through new programs, expansion or contraction of existing programs
- Tax Cycle – need to allow for the 6-month tax cycle associated with collection of real property taxes in November (5 months after start of fiscal year) and May.

Development of reserve policy objectives show that the County needs to:

- Distinguish between restricted and unrestricted reserves
- Establish distinct purposes for all reserves
- Set target levels, such as minimums and maximums, for the accumulation of reserves
- Identify the events or conditions that prompt the use of reserves
- Conform with plans to acquire or build capital assets
- Receive Commission approval of written reserve policies
- Require periodic review of reserve balances and rationale for maintaining them.

GFOA in its Recommended Practice on Appropriate Level of Unreserved Fund Balance in the General Fund (2002) states:

In establishing a policy governing the level of unreserved fund balance in the general fund, a government should consider a variety of factors, including:

- The predictability of its revenues and the volatility of its expenditures
- The availability of resources in other funds as well as the potential drain upon general fund resources from other funds
- Liquidity
- Designations

### **Operating Reserves – Policy:**

Gallatin County maintains Operating Reserves to mitigate the effects of warrant registration and to meet the needs of the programs. To facilitate this, the County Commission has established this policy for utilization by ALL funds with Budgetary Authority coming from the County.

Because the County has a number of revenue sources for different fund types the following guidelines are set for the County's Financial Professionals:

<b><u>TYPE</u></b>	<b><u>PERCENTAGE</u></b>
<b>Funded mostly through monthly charges</b> (examples: Rest Home, Motor Pool)	<b>8% to 16%</b>
<b>Funded largely through charges and then taxes</b> (examples: General, Road, and Health)	<b>10% to 18%</b>
<b>Funded from Quarterly Grant Allocations</b> (example: Communicable Disease, MRDTF)	<b>16% to 24%</b>
<b>Funded largely from Taxes or Seasonal Activity</b> (example: Bridge, Weed, and Fair)	<b>20% to 30%</b>

The Finance Office will make a recommendation to the County Commission and all County elected officers and department heads for each fund's Operating Reserve at the beginning of the budget process.

The Finance Office will prepare all budgets using the recommended Operating Reserves. The recommended Operating Reserves are maintained throughout the budget process, unless amended by the County Commission, as a result of significant increases or decreases to an individual fund budget.

### **VARIANCE:**

If a department cannot fund Operating Reserves or desires to increase or decrease the Operating Reserves from the amount recommended by the Finance Office, a variance request is submitted to the County Commission in May of each year. The Commission reviews the variance, holds a public hearing on the variance and makes a determination to approve, amend or reject the variance.

## **Capital Reserves:**

In the past, Reserves for Capital Outlay/Reserves and Projects were inconsistent. Individual departments set aside money, as it was available, without major consideration to overall County priorities. As an example in FY 95 the Capital Outlay Budget was \$1,270,350 plus \$312,518 in Capital Reserves. In FY 2008 Capital Outlay is \$12,151,652 including Capital Projects and Capital Reserves.

## **Objective – Capital Reserves:**

*Identify capital needs, adequately fund or identify future funding sources for (a) equipment replacement, (b) building renovation or replacement, (c) expansion of current buildings or construction of new buildings and, (d) establish reserves based on future needs from the public and staff, without unnecessarily obligating the County's limited resources.*

### **Capital Reserves and Long-Term Capital Planning require secure funding sources**

Gallatin County has adopted a Capital Improvement Program (CIP). This includes a citizen / staff CIP committee recommending Plan implementation. The Commission appoints the committee, which meets bi-weekly. The Commission funds large capital projects by receiving voter approval. Capital Reserves is a method the county uses to set aside budget authority over several years to fund capital projects. Successful projects funded through this method include HHS Building Remodel; Courthouse remodel; EOC/Search Building; Detention Center Upgrade; Law and Justice HVAC update; purchase of Guenther Memorial and Courthouse Annex; and Road Shop.

Capital Projects currently funded by voter approved bonds include Rest Home 1989 \$1,649,000, Open Space Bond I at \$10,000,000; and Open Space Bond II at \$10,000,000. Loans supporting county projects include \$999,000 for Law & Justice Remodel, \$999,000 for Road building, \$999,000 for Courthouse Annex, Re-Entry \$800,000 and Fairgrounds \$500,000.

In the coming years the county will be faced with possible debt for the Dispatch Building \$999,000; Mental Health Building \$999,000; Detention Center \$28,500,000; Law Enforcement Building \$20,000,000; Courts Building \$18,000,000; Phase II Courthouse Annex Remodel \$1,800,000; Storage Facility; enhancements at Fairgrounds and Noxious Weed Office/Shop/Storage.

All of the potential projects are incorporated into the County's approved CIP for FY 2008. Actual costs and the amount of debt involved for each project will be determined after further study of programs and need.



## County Debt to Available Debt:

The County's Debt Policy is contained within the Capital Improvement Program Policy - Section V – Financial Policy on Capital reserves, funding of capital projects and debt utilization.

The CIP debt policy states:

- a) "Long Term borrowing will not be used to finance current operations, capital outlay not part of the approved CIP or for normal maintenance.
- b) The County Commission will strive not to issue bonds more frequently than once every two Finance years."

The following calculations show the maximum debt available and current and proposed debt for Gallatin County.

DEBT LIMITATION CALCULATIONS				
Maximum Allowed Gallatin County, Montana				
DOR Market Value August, 2007				
Assessed Valuation: FY 07 Certified Market Value		6,104,448,625	D.O.R. Certification	
Factor allowed for indebtedness		2.50%		
Total Indebtedness Allowed:		152,611,216		
Less:				
Rest Home Bond	\$	240,000	Sep.	
Open Land Bond		2,975,000		
Open Land Bond 2003		2,470,000	Mill	
Open Land Bond 2006		4,935,000		
Open Land Bond 2004 Voted Bond		7,200,000	Levy	
Progreba Field Loan		7,650	No	
Capital Leases (5 graders, 1 loader)		710,155		
Courthouse Remodel		-		
Guenther		723,640	Sep.	
Landfill Cell Expansion		453,157		
Re-entry		731,119	Mill	
Library Loan (5 libraries benefited)		878,706		
Fair Loan		500,000	Levy	
Purchase Annex		999,000		
District Court / L & J Remodel		999,000		
Warrants (estimate)		750,000		
				\$ 24,572,427
Maximum Indebtedness Available (7-1-2006)		\$ 128,038,789		
FY 08 Proposed - Road/Weed		999,000	NO	
FY 08 Proposed - Dispatch Building		999,000		
FY 09 Proposed - Mental Health - Building		999,000	Mill	
FY 08 Proposed - Remodel Annex		999,000		
		-	Levy	
		-		
				\$ 3,996,000
Amount Available		\$ 124,042,789		

On February 1, 2006 the County issued General Obligation bonds in the amount of \$5.0 Million. Standard's and Poor's gave these bonds an "A+" rating. This is a very positive affirmation of the county's financial position.

The County has used 16.10% of its debt capacity. With plans to use an additional 2.6% in FY 08 / FY 09 for future needs. Other projects needing consideration for possible use of debt include detention center, road / bridge improvement plans, facility master plans and program needs. However, the County's ability to fund infrastructure capital needs is limited to those projects approved by the voters.

### **Areas not covered by current Policies:**

- A statement on when the County Commission will utilize the County's borrowing capacity of up to \$2,000,000 per project that is allowed without a vote?

#### **NOTE:**

All loans, leases or bonds issued will reduce the amount of debt available for the County. They also reduce the Bank Qualified amount available. This will result in higher interest rates on bonds sold beyond this point that could add .10% to .15%. Also, the yearly payment for loans and leases are paid from current operating revenues rather than a new mill levy as is available for voter-approved bonds. Several questions are considered in determining utilization of the County's borrowing capacity.

- When are grants to be used? Are grants inconsistent with the mission, vision and goals of the County and should they be denied? Thereby not using scarce tax resources.
- Should Gallatin County establish capital reserves for most equipment replacement? The County currently has established a practice of funding \$430,000 per year for law enforcement vehicle replacement, \$250,000 for Information Technology Services Department (ITS) computer needs, along with VOIP system reserves, motor pool reserves and copier reserves. The ITS Department has recommended, and the County Commission has approved, the establishment of a four year Computer replacement schedule.